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Warehousing Farm Products under the U.S. Warehouse Act

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A pamphlet containing Questions and Answers about the Storage of Agricultural Products in Warehouses under Federal Supervision as provided for in the United States Warehouse Act



PREPARED BY THE
U. S. DEPARTMENT OF AGRICULTURE



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financial condition from time to time. They must maintain their warehouses in proper condition. They are subject at all times to inspection by representatives of the Department of Agriculture who have in hand the administration of this particular act.

This pamphlet deals only with the Federal warehouse act. The Department of Agriculture has no authority over warehouses other than those licensed under the Federal act. Many States have warehouse laws, but the Department of Agriculture has nothing to do with the administration of these laws.

Rules and regulations governing the operation of federally licensed warehouses are prepared and promulgated by the Department of Agriculture. These rules and regulations are in conformity with the provisions of the act. The Department of Agriculture has no authority to modify or change in any way the provisions of the act.

The agricultural credits act of 1923 has opened up a large field of farm credit. This credits act is in one sense supplementary to the Federal warehouse act. Through federally licensed warehouse receipts the new credit pool can be tapped very much more easily than otherwise. A pamphlet similar to this one has been prepared, explaining in question and answer form the provisions of the agricultural credits act. Copies of this pamphlet may be obtained by application to the Department of Agriculture.

It is believed that this pamphlet contains an answer to about every question which can be raised concerning the licensing and operation of Federal warehouses. That is the purpose for which it is issued.

WAREHOUSING FARM PRODUCTS.

What is the United States warehouse act?

It is a law passed by Congress in 1916 and amended July 24, 1919, and February 23, 1923. It provides for licensing, by the Secretary of Agriculture of the United States, any warehouseman engaged in the business of storing agricultural products moving in interstate or foreign commerce.

Must all warehousemen become licensed under this law?

No; the law is not compulsory.

Who may become a licensed warehouseman?

Any person lawfully engaged in the business of storing agricultural products.

What is meant by a "person" under this act?

The word "person" includes an individual, a corporation, a partnership, or two or more persons having a joint or common interest.

What is a "warehouse" for purposes of this act?

A "warehouse" may be any building, structure, or protected inclosure in which agricultural products are or may be stored for interstate or foreign commerce. The department does not specify any particular type of construction, but the warehouse must protect stored products from weather damage and from damage caused by rodents.

For what period can a license be issued?

For an indefinite period; but the warehouseman must furnish a bond annually, on or before a specified date. If desired, a license may be issued for a limited period.

What are the purposes of the law?

Its main purposes are to provide a uniform national system of public warehouses for the storage of staple farm products, to encourage the storage of such products, and to facilitate the financing of stored products so as to permit orderly marketing.

How is this purpose accomplished?

It is accomplished by providing for the issuance of warehouse receipts, uniform in their terms, for all products stored in licensed warehouses. These receipts can be used by depositors as collateral for loans. In this way the person placing the agricultural product in the warehouse can secure a certain amount of cash without selling the commodity. This prevents a general dumping of the product on the market shortly after it is harvested and

makes it possible for the producer to market the crop throughout the year.

What products are storables under the law?

Originally the law provided for licensing warehouses for the storage of cotton, grain, tobacco, and wool. On February 23, 1923, the law was amended so as to make it possible to license warehouses for the storage of such agricultural products as the Secretary of Agriculture may deem properly storables under the act.

Has the warehouse act been extended to include products other than those mentioned?

No. It is planned, however, to extend it to the warehousing of peanuts at an early date. It will be extended to other products that might properly be stored under the act just as soon as the department can make the necessary investigations to determine what regulations should be made.

Can persons who operate warehouses for private storage only be licensed under the law?

No. All federally licensed warehouses must receive products for storage from anyone who may offer products for storage, as long as the licensed capacity of the warehouse is not exceeded. A warehouseman can not discriminate between persons offering goods for storage if the products are in a storables condition. This includes buyers and shippers of products as well as producers.

Can an individual farmer secure a Federal license for his cribs and granaries when they are retained under his own control and used only for storing his own grain?

No. The Federal law does not provide for this.

Is there any way by which cribs and granaries on the farms might be brought under the Federal warehouse act?

If a group of farmers should organize a warehouse company and should transfer the control of their own cribs and granaries to this corporation, either by sale or lease, and should conform to all the requirements of the Federal act, it should be possible for a Federal license to be issued. Farmers contemplating action of this sort should carefully read the rules and regulations under which the law is administered. The Department of Agriculture has authority to license warehouses when the law is complied with, but it has no authority to make changes in the law. The Department of Agriculture will gladly advise with any groups of farmers who contemplate such an organization as is suggested.

How must a warehouseman proceed to become licensed?

He should apply to the Secretary of Agriculture for application forms.

• What are the requirements for licensing?

- (a) A suitable warehouse for the storage of the products.
- (b) A competent person to operate the warehouse.
- (c) The warehouseman must have a good business reputation.

(d) The warehouseman must possess a certain amount of net assets.

(e) He must have such equipment as is necessary to care for the products.

(f) He must be able to weigh and grade products correctly.

(g) He must furnish an acceptable bond in an amount fixed by the department.

What kinds of bond are acceptable under the act?

Only bonds written by duly authorized surety companies, which companies are approved by the Surety Division of the Treasury Department. The amount of the bond required is determined by the storage capacity of the warehouse. In the case of grain warehouses, it is fixed at 5 cents per bushel of the maximum storage capacity of the warehouse, with a minimum bond of \$5,000 and a maximum bond of \$50,000. A larger bond can be required at any time if the Secretary of Agriculture shall determine that a bond which has been provided has become insufficient.

What amount of net assets must a warehouseman possess?

The amount varies with the capacity of the warehouse. For grain warehouses it is fixed at 10 cents per bushel of the maximum number of bushels that the warehouse will accommodate, with a maximum limit of \$100,000.

How does the department determine the eligibility of a warehouseman for licensing?

By examiners who make careful investigation of the character of the warehouseman, his financial standing, the warehouse and its equipment, the location and surroundings of the warehouse, and the persons who weigh and grade the commodities. The investigations extend to inquiries among disinterested persons.

What supervision does the department exercise after a warehouseman is licensed?

It makes the same kind of examinations as it does at the time the warehouseman applies for license, and in addition checks all stock in the warehouse with outstanding receipts to see if the required amount of product is in storage for every uncanceled receipt.

How frequently are such inspections made after the warehouseman is licensed?

The department endeavors to inspect each plant at least four times a year.

Does the Government regulate the charges of warehousemen?

It does not attempt to fix the rates which may be charged but it does pass upon the reasonableness of the rates. Each warehouseman is required to file a copy of his tariffs and rules and regulations before he is licensed. If any charge seems unreasonable, license is withheld until a fair charge is agreed upon. Charges can not be changed without the consent of the department.

When the farmer stores his products, what does he receive for them?

He receives a warehouse receipt.

What is a warehouse receipt?

A warehouse receipt is a contract which the depositor of goods in a warehouse makes with the warehouseman. It is evidence that the person named in the receipt, or his agent, has deposited with the warehouseman the products described in the receipt, and contains the terms on which they were deposited and the conditions under which they will be released.

What are the terms of a Federal warehouse receipt?

A warehouse receipt issued under the law must give the location of the warehouse in which the products are stored, the date of issuance of the receipt, and the consecutive number of the receipt. It must state whether the products will be delivered to the bearer of the receipt, to a specified person, or to a specified person or his order. It must give the rate of storage charges, a description of the agricultural products, showing the quantity and any identification marks or numbers, the weight and the grade, as well as the standard by which the grade is determined. It must state that the receipt is issued under the warehouse act and its regulations, whether or not the warehouseman has any interest in the product, what advances have been made or liabilities incurred by the warehouseman for which he claims a lien on the stored goods, and whether or not the product is insured. It must give the name of the warehouse, the signature of the warehouseman, a statement as to whether he is incorporated, and if so under what law, and such additional terms as the Secretary of Agriculture may from time to time prescribe. On the back of the receipt there must be a statement of encumbrances and liens on the stored goods.

How many kinds of Federal warehouse receipts are there?

There is only one kind of Federal warehouse receipt, which is the form prescribed by the law and regulations. Warehouse receipts may be either negotiable or non-negotiable.

How many receipts may be outstanding at one time for the same quantity of product?

Only one original receipt is permitted by law. If a receipt is lost or destroyed, a duplicate receipt may be issued by the warehouseman only after the owner of the receipt files a certain statement with the warehouseman and furnishes a bond in double the amount of the value of the commodity represented by the lost receipt.

Can a licensed receipt be issued legally and the products stored in some place other than a licensed warehouse?

Under no circumstances.

For how long a period may products be stored in a Federal licensed warehouse?

Federal warehouse receipts state the maximum storage period. The period for grain, cotton, and wool is one year from the date of issuance of the receipt; for tobacco, three years.

At the expiration of the period mentioned in the warehouse receipt, must the depositor remove his goods from the warehouse?

No. He should surrender his receipt and enter into a new contract with the warehouseman.

What standards must be used in stating the grades of products on warehouse receipts?

When official standards for the particular products have been established by the Government these standards must be used to state the grade. In the absence of such standards the department will recognize such other standards as it may consider proper.

May the statement of grade be omitted from the receipt?

The law requires that the grade be stated by the warehouseman on the receipt in all instances except in the case of products the identity of which will be preserved while in storage. Even when the identity is preserved, the warehouseman is required to state the grade unless the depositor requests that the warehouseman shall not determine the grade.

Is the warehouseman entitled to charge for determining the grade?

Yes; he is entitled to a reasonable fee.

Can persons be licensed under the warehouse act to classify, inspect, and weigh products?

Yes.

Must a warehouseman have such licensed classifiers, inspectors, and weighers?

He must in the case of products the identity of which is lost in storage, such as bulk grain. The law specifically

requires that such products must be inspected, graded, and weighed by persons duly licensed to perform such services.

May one person serve as grader, weigher, and inspector and be licensed to perform all three functions?

Yes; if he is qualified. The warehouseman, if qualified, may be licensed to perform these services.

If the depositor disagrees with the warehouseman as to the statement of grade, what recourse has he?

The different regulations provide either for taking an appeal or for having the question arbitrated by duly appointed boards.

What is the loan value of a warehouse receipt?

This depends entirely upon the commodity and the banker who is asked for a loan. On commodities such as grain and cotton bankers have been known to loan as much as 80 per cent of the current market value of the product. But the amount a banker will loan is entirely in his discretion.

Will the Federal reserve banks make loans to farmers who offer Federal warehouse receipts as collateral?

No. Federal reserve banks do not deal with individuals, but do business with member banks only.

Do the member banks of Federal reserve banks recognize Federal warehouse receipts?

They generally do.

Will the intermediate credit banks organized under the intermediate farm credit act of 1923 make loans to farmers who offer Federal warehouse receipts as collateral?

Not directly to the farmers. They will make loans to farmers' cooperative associations. They will also accept for rediscount the farmers' paper when it is indorsed by a bank.

When a local bank can not make further loans, or will not accommodate a farmer, can the farmer offer a Federal warehouse receipt as collateral to another bank?

Yes. Federal warehouse receipts are generally acceptable among the banks regardless of the location of the warehouse which issued the receipt.

For what period and at what rates of interest may loans secured by warehouse receipts be obtained?

This varies in different sections, depending upon the credit needs and the views of the bankers.

• What is the opinion of bankers of federally licensed warehouse receipts?

The managing director of the War Finance Corporation, which organization has loaned millions of dollars to farm organizations, expresses his opinion of Federal warehouse receipts as follows:

"In a large majority of cases cooperative associations obtaining advances from us have given as security receipts issued by federally licensed warehouses. * * *

"From my experience in the work of the War Finance Corporation, I believe that the safeguards imposed under the licensing system of your bureau add greatly to the value of a warehouse receipt as security and work to the advantage of the person or institution which lends money on warehouse receipt security, of the owner of the commodities, and of the warehouse which assumes responsibility for the receipt."

The governor of one of the Federal reserve banks expresses his opinion in these words:

"So far as we recall, we never had occasion to decline a loan based upon one of the United States bonded receipts, and if that occasion should arise, it would not be on account of the receipt."

By a resolution adopted June 13, 1923, the New Orleans Clearing House Association declared itself as preferring Federal warehouse receipts and as favoring the licensing of warehouses under the United States warehouse act and urged warehousemen in Louisiana to operate their warehouses under the statute.

Must a licensed warehouseman insure all products which he accepts for storage?

No; the law does not make such a requirement. The regulations require that he must insure the product when requested in writing by the depositor.

What care must a warehouseman exercise over products stored with him?

He must take such care of the commodities as a reasonably careful owner would exercise under the same circumstances and conditions.

If grain stored with a warehouseman is getting weevily, musty, or otherwise going out of condition, what must the warehouseman do?

He must direct the licensed inspector to examine the grain, and if he finds it to be getting out of condition, and is of the opinion that by reelevating, screening, cooling, or drying, such grain can be brought back to condition and prevent further deterioration, the warehouseman must take steps to do so. At the same time he must give notice to the owners of the grain of the condition of the grain. If deterioration can not be stopped by treating the grain, and the owner does not order it removed, the warehouseman may sell it at public auction for the account of the owner.

Can products be delivered legally from a warehouse without the surrender of the receipts representing the products?

Generally speaking, they can not. The only exception is when an emergency arises which makes it absolutely necessary to remove the products to protect them.

Has a warehouseman the right to sell and deliver products in storage?

Not without the consent of the owner and the surrender of the receipt, except when products are going out of condition and this condition can not be remedied by the usual treatment.

How can products be legally delivered from the warehouse when the products are sold to another party?

(a) If the original depositor holds the warehouse receipt, he should indorse it and transfer it to the purchaser of the product, who may then surrender the receipt when he wishes to remove the product from the warehouse.

(b) If the warehouse receipt is in the hands of a banker as security for loan and the depositor is not able to pay off the loan so as to get the warehouse receipt, the buyer of the product and the depositor could go to the bank, the buyer could then advance the amount of the loan to the banker, and the banker would then surrender the receipt.

(c) If the receipt is in the hands of a banker, he will usually surrender it to the warehouseman in exchange for a trust receipt. When the goods are loaded, the warehouseman will give the banker the bill of lading. The banker will then surrender the trust receipt to the warehouseman. The owner of the commodity should then draw a sight draft on the buyer of the commodity and place it with the banker who holds the bill of lading for collection. When collection is made, the banker should settle with his client or the original owner of the goods.

What does it cost the farmer to use a federally licensed warehouse?

Ordinarily it costs him nothing more than it would to store in an unlicensed public warehouse. The average licensed warehouseman absorbs the charges incident to becoming licensed, although under the regulations the department permits him to distribute these costs among his customers.

What does it cost the warehouseman to become licensed?

The warehouseman pays to the Government an inspection fee ranging from \$5 to \$50, depending upon the capacity of the warehouse. In addition, he must pay a license fee of \$2. The premium charged on the warehouseman's bond by the surety company must also be paid by the warehouseman. This varies, although the usual rate is 1 per cent of the amount of the bond.

Are there State warehousing laws?

Yes. Most States have what is known as the uniform warehouse receipts act, which applies to warehousing in general. A number of States also have special laws relating to the warehousing of agricultural products.

What advantages, if any, are there in having warehousemen operate under the Federal act in preference to State laws?

This is answered by the governor of one of the Federal reserve banks, who says:

"The particular advantage of the receipt issued by warehouses operating under Federal license is that it would undoubtedly be looked upon favorably as collateral outside of the State as well as in it, and that in a good many instances the availability as collateral of the receipt issued by warehouses under the State law would be restricted to use within the State only."

What advantage is it to a farmer to store his products in a federally licensed warehouse rather than in the storage bins on his farm?

The principal advantages are:

(a) As security for loans the warehouse receipt makes it possible for the farmer to borrow on the loan value of his product rather than on his personal responsibility.

(b) It gives him a larger amount of credit.

(c) It gives him a larger field of credit upon which to draw.

(d) It places his products in the hands of a warehouseman who is presumed to know how to care for the products and prevent them from deteriorating.

(e) Generally, he can obtain a lower insurance rate.

(f) If his farm is located at some distance from a shipping point and the roads between his farm and the shipping point are not improved, placing his products in a Federally licensed warehouse generally means having them at a point from which they can be shipped at any time in the year regardless of weather conditions, thus making it possible for him to take advantage of desirable opportunities to sell.

Can a farmer feel reasonably sure that his products stored in a licensed warehouse will be in the warehouse when he wants them?

Because of Federal supervision of these warehouses he can feel just as reasonably safe with regard to his products as he can when he deposits his money in a national bank. Both are under Government supervision.

Does the Government extend financial aid for building warehouses?

No; it has no authority to do so.

When there are no federally licensed warehouses in the producing community, but a number of unlicensed warehouses, what should the farmer do to get federally licensed warehouse receipts?

He can do several things:

(a) Ship his commodity to a Federally licensed warehouse in another community.

(b) Endeavor to persuade the unlicensed warehouseman to become licensed.

(c) Present the Federal warehouse act to the local bankers and show them what it means in the way of improved collateral and how they can take the farmers' paper secured by Federal warehouse receipts and rediscount it, either with correspondent banks, with intermediate farm credit banks, or with Federal reserve banks. Usually when this is presented to the bankers in the proper light they will join in endeavoring to persuade the warehousemen to become licensed, and when the bankers make a demand the warehousemen usually respond.

(d) Endeavor to get the leading farmers in the community to join in an attempt to show the warehouseman that it would be to the mutual interest of both warehouseman and farmers to have the warehouse licensed.

(e) Bring about the organization of a corporation to build and operate a licensed warehouse.

Are there any penalties connected with the United States warehouse act?

There are. These penalties apply both to the warehousemen and to persons who may sample, classify, grade, or weigh products, and to anyone who may violate the law by representing himself to be licensed when he is not, or by issuing false or fraudulent receipts, or by converting to his own use without lawful authority, or by removing from the licensed warehouse a product contrary to the act and regulations.





